

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name BAY TOWNSHIP	County CHARLEVOIX
Fiscal Year End 3/31/06	Opinion Date 8/23/06	Date Audit Report Submitted to State 9/30/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

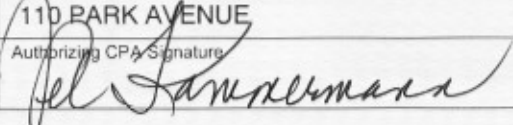
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ **NO** ☐ **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) MASON & KAMMERMAN, P.C.		Telephone Number (231) 547-4911	
Street Address 110 PARK AVENUE		City CHARLEVOIX	State MI
Zip 49720			
Authorizing CPA Signature 		Printed Name VEL KAMMERMAN	License Number 1101012482

BAY TOWNSHIP
CHARLEVOIX COUNTY, MICHIGAN

FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION
for the year ended March 31, 2006

MASON & KAMMERMAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CHARLEVOIX, MICHIGAN

Bay Township

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MASON & KAMMERMANN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

HUGH E. MASON
VELDA K. KAMMERMANN

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INDEPENDENT AUDITOR'S REPORT

August 23, 2006

Members of the Township Board
Bay Township
Boyne City, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of Bay Township of Boyne City, Michigan, as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Bay Township as of March 31, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, as of July 1, 2004, along with all related statements and interpretations.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Mason & Kammermann, P.C.
Mason & Kammermann, P.C.
Certified Public Accountants

Bay Township

Management Discussion & Analysis August 23, 2006

This section of Bay Township's annual financial report presents our discussion and analysis of the financial performance of the Township during the fiscal year ended March 31, 2006.

Overview of the Financial Statements

This discussion and analysis introduces the Township's basic financial statements that follow this section. These financial statements are in a new format implemented over this fiscal year to comply with Governmental Accounting Standards Board Statement 34 (GASB 34). Bay Township's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements and the notes to the financial statements. Additionally, this report also contains other supplementary information to the basic financial statements.

Government-wide Statements

The government-wide statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Township's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The Statement of Net Assets presents information on all of Bay Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Bay Township is improving or deteriorating.

The Statement of Activities presents changes in the government's net assets during the most recent fiscal year, on the modified accrual basis of accounting.

Fund Financial Statements

The fund financial statements provide information separated into related areas to demonstrate how resources have been allocated for specific activities or functions. Bay Township, like other governmental entities, uses fund accounting to ensure compliance with the requirements of accounting standards and laws. Bay Township uses two categories of funds, which are governmental and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions as reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Bay Township maintains two major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General and Road Funds.

The Township adopts an annual appropriated budget for its general fund and special revenue funds. A budgetary comparison statement has been provided for the general fund and other major funds to demonstrate compliance with these budgets.

Fiduciary Funds

Fiduciary funds are used to account for resources collected and held for the benefit of the Township and other governmental units outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Township's own programs.

Bay Township

Management Discussion & Analysis August 23, 2006

Financial Analysis of the Township as a Whole

The table below shows, in a condensed format, the Township's net assets as of March 31, 2006:

Bay Township Statement of Net Assets	
	<u>Governmental Activities</u>
<u>Assets</u>	
Current Assets	\$ 468,193
Noncurrent Assets	
Capital Assets, net	<u>140,501</u>
Total Assets	608,694
<u>Liabilities and Net Assets</u>	
Current Liabilities	<u>7,005</u>
Net Assets	
Invested in Capital Assets, net	140,051
Restricted	125,157
Unrestricted	<u>336,031</u>
Total Net Assets	<u>\$ 601,689</u>

The total governmental net assets are \$601,689 for the Township. The township has \$336,031 of unrestricted governmental net assets, which could be used to finance the day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

Bay Township

Management Discussion & Analysis August 23, 2006

The following table shows how activities affected changes in net assets during the fiscal year.

Changes in Net Assets For The Year Ended March 31, 2006

	<u>Governmental Activities</u>
Revenues:	
Program Revenues	
Charges for Services	\$ 9,315
General Revenues:	
Property Taxes	216,088
State Shared revenues	72,131
Administrative Fees	39,996
Interest	16,381
Other	<u>3,059</u>
Total Revenues	356,970
Expenses:	
Legislative	28,005
General Government	62,519
Public Safety	69,074
Public Works	80,126
Health & Welfare	675
Community & Economic Development	27,751
Recreation & Culture	<u>1,685</u>
Total Expenses	<u>269,835</u>
Change in net assets	<u><u>\$ 87,135</u></u>

Revenue sources and changes

Total revenue from governmental activities totaled \$356,970. Revenue from governmental activities consists primarily of, 61% from property taxes, 20% from state revenue sharing and 11% from administrative fees. The millage rates for general operations and road improvements were .9761 mills each.

Bay Township

Management Discussion & Analysis August 23, 2006

Expenses

Using the full accrual basis of accounting, the Township spent \$269,835 on governmental activities. This equates to 30% on public works, 26% on public safety, 23% on general government, 10% on legislative activities, 10% on community and economic development, and 1% on recreation and culture.

Financial Analysis of the Township's Funds

At March 31, 2006, the Township's governmental funds reported a combined cash of \$451,361, which is approximately \$86,233 more than last year.

Capital Assets

At fiscal year ended March 31, 2006, the Township has \$140,501 in capital assets, net of accumulated depreciation.

Capital assets include all purchases of assets that exceed \$1,000. Capital assets include: land and improvements, buildings and improvements, road signs and equipment. The Township uses straight-line depreciation for all depreciable assets.

Long-Term Debt

The Township had no outstanding long-term debt for governmental activities as of March 31, 2006.

Requests for Information

This financial report is designed to provide a general overview of Bay Township's finances for all of those with an interest in the township's finances. If you have questions concerning this report or requests for any additional financial information, please contact Bay Township, 05045 Boyne City Rd., Boyne City, Michigan, 49712.

Bay Township

Statement of Net Assets March 31, 2006

	Governmental Activities
<u>Assets</u>	
Current Assets	
Cash	\$ 451,361
Due from Other Funds	7,033
Taxes Receivable	9,799
	<hr/>
Total Current Assets	468,193
Noncurrent Assets	
Capital Assets	247,906
Less: Accumulated Depreciation	(107,405)
	<hr/>
Total Noncurrent Assets	140,501
	<hr/>
Total Assets	608,694
	<hr/>
<u>Liabilities and Net Assets</u>	
Current Liabilities	
Accounts Payable	5,091
Accrued Payroll Taxes	1,914
	<hr/>
Total Liabilities	7,005
Net Assets	
Invested in Capital Assets	140,501
Restricted	125,157
Unrestricted	336,031
	<hr/>
Total Net Assets	\$ 601,689
	<hr/>

The accompanying notes are a part of the financial statements.

Bay Township

Statement of Activities For The Year Ended March 31, 2006

		Program Revenues			Net Revenue (Expense) and Change in Net Assets
			Operating Grants & Contributions	Capital Grants & Contributions	
	Expenses	Charges for Services			Total
Governmental Activities					
Legislative	\$ 28,005	\$ -	\$ -	\$ -	\$ (28,005)
General Government	62,519	-	-	-	(62,519)
Public Safety	69,074	-	-	-	(69,074)
Public Works	80,126	-	-	-	(80,126)
Health & Welfare	675	-	-	-	(675)
Community & Economic Development	27,751	9,315	-	-	(18,436)
Recreation and Cultural	1,685	-	-	-	(1,685)
Total Government Activities	<u>\$ 269,835</u>	<u>\$ 9,315</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(260,520)</u>
General Revenues:					
Taxes:					
Property Taxes					216,088
Administrative Fees					39,996
State Shared Revenues					72,131
Interest					16,381
Other					3,059
Total General Revenues					<u>347,655</u>
Change in Net Assets					87,135
Net Assets - April 1, 2005					<u>514,554</u>
Net Assets - March 31, 2006					<u>\$ 601,689</u>

The accompanying notes are a part of the financial statements.

Bay Township

Governmental Funds Balance Sheet March 31, 2006

<u>Assets</u>	<u>General Fund</u>	<u>Road Fund</u>	<u>Total</u>
Cash	\$ 330,516	\$ 120,845	\$ 451,361
Due From Other Funds	7,033	-	7,033
Taxes Receivable	5,487	4,312	9,799
Total Assets	<u>\$ 343,036</u>	<u>\$ 125,157</u>	<u>\$ 468,193</u>
 <u>Liabilities and Fund Equity</u>			
Liabilities:			
Accounts Payable	\$ 5,091	\$ -	\$ 5,091
Accrued Payroll Taxes	1,914	-	1,914
Total Liabilities	7,005	-	7,005
Fund Equity:			
Unrestricted	336,031	-	336,031
Restricted	-	125,157	125,157
Total Fund Balance	<u>336,031</u>	<u>125,157</u>	<u>461,188</u>
Total Liabilities & Fund Equity	<u>\$ 343,036</u>	<u>\$ 125,157</u>	<u>\$ 468,193</u>

The accompanying notes are a part of the financial statements.

Bay Township

Governmental Funds Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets March 31, 2006

Total Fund Balances - Governmental Funds	\$	461,188
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds balance sheet.

Cost of capital assets	247,906
Accumulated depreciation	<u>(107,405)</u>

Total Net Assets - Governmental Activities	<u>\$</u>	<u>601,689</u>
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The accompanying notes are a part of the financial statements.

Bay Township

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances For The Year Ended March 31, 2006

	General Fund	Road Fund	Total
Revenues:			
Taxes	\$ 108,163	\$ 107,925	\$ 216,088
Administrative Fees	39,996	-	39,996
State Shared Revenue	72,131	-	72,131
Licenses & Permits	9,315	-	9,315
Interest	14,896	1,485	16,381
Other	3,059	-	3,059
	<hr/>	<hr/>	<hr/>
Total Revenues	247,560	109,410	356,970
	<hr/>	<hr/>	<hr/>
Expenditures:			
Current:			
Legislative	28,005	-	28,005
General Government	57,746	-	57,746
Public Safety	69,074	-	69,074
Public Works	3,380	76,746	80,126
Health & Welfare	675	-	675
Community & Economic Development	27,751	-	27,751
Recreation and Cultural	1,685	-	1,685
	<hr/>	<hr/>	<hr/>
Total Expenditures	188,316	76,746	265,062
	<hr/>	<hr/>	<hr/>
Net Change in Fund Balance	59,244	32,664	91,908
Fund Balances - April 1, 2005	<hr/> 276,787	<hr/> 92,493	<hr/> 369,280
Fund Balances - March 31, 2006	<hr/> <hr/> \$ 336,031	<hr/> <hr/> \$ 125,157	<hr/> <hr/> \$ 461,188

The accompanying notes are a part of the financial statements.

Bay Township

Governmental Funds Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For The Year Ended March 31, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ 91,908
Amounts reported for governmental activities in the statement of net assets are different because:	
Depreciation expense is recorded in the statement of activities but not the governmental fund financial statements	<u>(4,773)</u>
Changes in Net Assets - Governmental Activities	<u>\$ 87,135</u>

The accompanying notes are a part of the financial statements.

Bay Township

Fiduciary Fund Statement of Net Assets March 31, 2006

Assets

Cash

\$ 7,033

Liabilities

Due to Other Funds

\$ 7,033

The accompanying notes are a part of the financial statements.

Bay Township

Fiduciary Fund Statement of Changes in Fiduciary Net Assets For The Year Ended March 31, 2006

Additions:

Property Tax Collections for:	
Primary Government	\$ 243,708
Other Governments	3,354,491
Interest Income	<u>5,921</u>
Total Additions	<u>3,604,120</u>

Deductions:

Property Tax Distributions for:	
Primary Government	245,966
Other Governments	<u>3,388,743</u>
Total Distributions	<u>3,634,709</u>

Change in Net Assets	(30,589)
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Fiduciary Net Assets - April 1, 2005	<u>37,622</u>
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Fiduciary Net Assets - March 31, 2006	<u><u>\$ 7,033</u></u>
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The accompanying notes are a part of the financial statements.

Bay Township

Notes To Financial Statements For The Year Ended March 31, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Bay Township (Township) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Bay Township.

A. Reporting Entity

The Township operates under a Board-Supervisor form of government.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Local Unit (primary government). The criteria established by the GASB statements for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based on these criteria, the Township has no component units.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Bay Township

Notes To Financial Statements For The Year Ended March 31, 2006

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state shared revenue, and interest associated with current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

General Fund – The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those that are required to be accounted for in another fund.

Special Revenue Fund – The Road Fund was established to account for millage voted by the taxpayers that has been restricted for township road improvements.

Agency Fund – The Agency Fund is used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Bay Township

Notes To Financial Statements For The Year Ended March 31, 2006

D. Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents

Cash is comprised of the amount of funds in bank accounts.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds".

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives.

Buildings and Improvements	40 years
Equipment	5 years
Land Improvements	20 years

Long-term Obligations

As of March 31, 2006, the Township has no outstanding long-term debt.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Bay Township

Notes To Financial Statements For The Year Ended March 31, 2006

Use of Estimates

The Township used estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenditures. Actual results could vary from the estimates that were assumed in preparing the financial statements.

Accounting Change

As of July 1, 2004, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments (Statement) along with all related statements and interpretations. Some of the significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Township's activities have been provided. Reconciliations are presented between the governmental fund level (modified accrual) and government-wide (full accrual) statements since their measurement focus is not the same.
- Capital assets reported on the statement of net assets include assets in the amount of \$140,501, which was the amount previously reported in the General Fixed Assets Account Group. The government-wide statement of activities reflects depreciation expenses on the Township's applicable capital assets.
- The fund financial statements focus on major funds rather than fund types.

The implementation has also required certain disclosures to be made in the notes to the financial statements concurrent with implementation of Statement No. 34 based on GASB No. 38. Certain note disclosures have been added and/or amended, including descriptions of activities of major funds and various other disclosures.

Bay Township

Notes To Financial Statements For The Year Ended March 31, 2006

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to March 15, the Township Board submits a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at the Township Hall to obtain taxpayer comments.
3. Prior to March 31, the budget is legally enacted.
4. The Board of Trustees is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Township Board.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles.
7. Appropriations expire at the end of the fiscal year.

Excess of Expenditures over Appropriations in Budgeted Funds

The Uniform Budgeting and Accounting Act, PA 2 of 1968, as amended, (MCL 141.421 et seq.) provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The Bay Township's budgeted and actual expenditures for the funds budgeted have been shown on a function basis.

During the year, the Township did not incur expenditures in the General and Road Funds in excess of the amounts appropriated.

Bay Township

Notes To Financial Statements For The Year Ended March 31, 2006

Accumulated Fund Deficits

The Bay Township had no funds with an accumulated fund balance/retained earnings deficit at March 31, 2006.

NOTE 3 – PROPERTY TAXES

Property taxes are levied on July first and December first and are payable on September and February fourteenth, respectively. Property tax revenues are recognized when levied.

The Township levied .9761 mills for both the general operations and road improvements on state taxable valuation of \$110,633,372 on the 2005 tax roll.

The Township also bills and collects taxes for other governmental units, which are accounted for in an Agency Fund.

NOTE 4 – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Local Unit to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan

Deposits – At March 31, 2006, the carrying amount of the Township's deposits was \$451,361.

Federal Depository Insurance – Of the above balances, \$205,544 was covered by federal depository insurance and U.S. Government guarantees. The remaining \$245,817 was uninsured and uncollateralized. State statutes prohibit security in the form of collateral, surety bonds or another form to be taken for the deposit of public funds. The Township may experience significant fluctuations in deposit balances during the year.

Bay Township

Notes To Financial Statements For The Year Ended March 31, 2006

NOTE 5 – CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

	Balance of April 1, 2005	Additions	Disposal	Balance of March 31, 2006
Capital assets not being depreciated				
Land	\$ 82,630	-	-	\$ 82,630
Capital assets being depreciated				
Land improvements	79,994	-	-	79,994
Buildings and improvements	35,693	-	-	35,693
Equipment and furniture	49,589	-	-	49,589
Total capital assets	247,906	-	-	247,906
Less: accumulated depreciation	(102,632)	(4,773)	-	(107,405)
Total capital assets	\$ 145,274	\$ (4,773)	\$ -	\$ 140,501

Depreciation expense was charged to the Township's functions as follows:

General Government	<u>\$ 4,773</u>
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NOTE 6 – INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables are as follows:

Fund	Interfund Receivable	Interfund Payable
General Fund	\$ 7,033	\$ -
Agency Fund	-	7,033
Totals	<u>\$ 7,033</u>	<u>\$ 7,033</u>

NOTE 7 – FUND EQUITY RESERVATIONS AND DESIGNATIONS

The Road Fund has \$125,157 restricted for road improvements.

Bay Township

Notes To Financial Statements For The Year Ended March 31, 2006

NOTE 8 – RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; error and omissions; injuries to employees and natural disasters.

The Township carries insurance for liability and workers compensation coverage.

Bay Township

Statement of Revenues, Expenditures and Changes in Fund Balances Budgetary Comparison - General Fund For The Year Ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Taxes:				
Property Tax	\$ 92,738	\$ 92,738	\$ 108,163	\$ 15,425
Administrative Fees	36,000	36,000	39,996	3,996
State Revenues:				
State Shared Revenues	70,000	70,000	72,131	2,131
Licenses and Permits	7,500	7,500	9,315	1,815
Interest	3,000	3,000	14,896	11,896
Other	750	750	3,059	2,309
	<u>209,988</u>	<u>209,988</u>	<u>247,560</u>	<u>37,572</u>
Total Revenues				
Expenditures:				
Legislative				
Township Board				
Per Diem	5,000	5,000	3,750	1,250
Payroll Taxes	3,000	3,000	3,046	(46)
Supplies	2,100	2,100	818	1,282
Professional Services	24,000	24,000	12,829	11,171
Dues & Subscriptions	1,700	1,700	1,688	12
Worker's Compensation	200	300	391	(91)
Insurance and Unemployment	5,500	5,500	4,935	565
Other Expenses	1,300	1,300	548	752
Contingency Fund	15,000	12,800	-	12,800
	<u>57,800</u>	<u>55,700</u>	<u>28,005</u>	<u>27,695</u>
Total Legislative				
General Government				
Township Supervisor				
Salary	5,800	5,800	5,800	-
Other Expenses	350	350	156	194
	<u>6,150</u>	<u>6,150</u>	<u>5,956</u>	<u>194</u>
Total Township Supervisor				
Elections				
Salary	2,000	2,000	1,736	264
Other Expenses	650	650	51	599
	<u>2,650</u>	<u>2,650</u>	<u>1,787</u>	<u>863</u>
Total Elections				

Bay Township

Statement of Revenues, Expenditures and Changes in Fund Balances Budgetary Comparison - General Fund For The Year Ended March 31, 2006

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Township Assessor				
Contracted Services	17,000	17,000	15,862	1,138
Supplies	1,500	1,500	1,130	370
Other Expenses	1,250	1,250	393	857
Total Township Assessor	19,750	19,750	17,385	2,365
Township Clerk				
Salary	9,000	9,000	9,000	-
Other Expenses	950	950	214	736
Total Township Clerk	9,950	9,950	9,214	736
Township Board of Review				
Per Diem	800	800	611	189
Other Expenses	700	700	627	73
Total Board of Review	1,500	1,500	1,238	262
Township Treasurer				
Salary	10,625	10,625	10,625	-
Supplies	2,000	2,000	1,518	482
Printing and Publishing	3,000	3,000	1,366	1,634
Other Expenses	700	700	65	635
Total Township Treasurer	16,325	16,325	13,574	2,751
Building and Grounds				
Supplies	3,000	3,000	960	2,040
Snow Removal	500	500	795	(295)
Repairs and Maintenance	5,000	5,000	1,023	3,977
Utilities	2,500	2,500	2,570	(70)
Other Expenses	68,100	68,100	100	68,000
Total Building & Grounds	79,100	79,100	5,448	73,652
Cemetery				
Wages	1,500	1,500	1,492	8
Repairs and Maintenance	1,000	1,000	778	222
Supplies	300	300	443	(143)
Other Expenses	3,150	3,150	431	2,719
Total Cemetery	5,950	5,950	3,144	2,806
Total General Government	141,375	139,375	57,746	83,365

Bay Township

Statement of Revenues, Expenditures and Changes in Fund Balances Budgetary Comparison - General Fund For The Year Ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Public Safety				
Fire Protection	<u>68,000</u>	<u>69,100</u>	<u>69,074</u>	<u>26</u>
Public Works				
Road Maintenance	<u>6,400</u>	<u>6,400</u>	<u>3,380</u>	<u>3,020</u>
Health & Welfare				
Ambulance	<u>4,000</u>	<u>4,000</u>	<u>675</u>	<u>3,325</u>
Community & Economic Develop.				
Planning & Zoning				
Per Diem	12,500	12,500	7,580	4,920
Contracted Services	28,416	29,416	19,442	9,974
Supplies	2,350	2,350	411	1,939
Publishing & Printing	<u>500</u>	<u>500</u>	<u>318</u>	<u>182</u>
Total Community & Economic Development	<u>43,766</u>	<u>44,766</u>	<u>27,751</u>	<u>17,015</u>
Recreation and Culture				
Township Parks:				
Wages	1,000	1,000	912	88
Repairs & Maintenance	2,000	2,000	700	1,300
Other Expenses	<u>7,000</u>	<u>7,000</u>	<u>73</u>	<u>6,927</u>
Total Recreation & Culture	<u>10,000</u>	<u>10,000</u>	<u>1,685</u>	<u>8,315</u>
Total Expenditures	<u>331,341</u>	<u>331,341</u>	<u>188,316</u>	<u>143,025</u>
Net Change in Fund Balance	(121,353)	(121,353)	59,244	180,597
Fund Balance - April 1, 2005	<u>276,787</u>	<u>276,787</u>	<u>276,787</u>	<u>-</u>
Fund Balance - March 31, 2006	<u>\$ 155,434</u>	<u>\$ 155,434</u>	<u>\$ 336,031</u>	<u>\$ 180,597</u>

Bay Township

Statement of Revenues, Expenditures and Changes in Fund Balances Budgetary Comparison - Road Fund For The Year Ended March 31, 2006

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Property taxes	\$ 97,000	\$ 97,000	107,925	\$ 10,925
Interest Income	1,000	1,000	1,485	485
Total revenues	98,000	98,000	109,410	11,410
Expenses:				
Public Works:				
Road Improvements	87,000	87,000	76,746	10,254
Net Change in Fund Balance	11,000	11,000	32,664	21,664
Fund Balance - April 1, 2005	92,493	92,493	92,493	-
Fund Balance - March 31, 2006	<u>\$ 103,493</u>	<u>\$ 103,493</u>	<u>\$ 125,157</u>	<u>\$ 21,664</u>

MASON & KAMMERMANN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

HUGH E. MASON
VELDA K. KAMMERMANN

110 Park Avenue
Charlevoix, Michigan 49720
Telephone (231) 547-4911
Facsimile (231) 547-5911

September 20, 2006

To the Board of Trustees
Bay Township

We have audited the financial statements of Bay Township for the year ended March 31, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated, April 12, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Bay Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Bay Township are described in Note 1 to the financial statements. The Governmental Accounting Standards Board issued a new reporting model for governmental units, which was implemented for the fiscal year ended March 31, 2006. The daily operations and recording transactions did not change significantly, however, the Township is required to maintain additional records for the year-end adjustments to the final presentation format. We noted no transactions entered into by the Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Township's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Township, either individually or in the aggregate, indicate matters that could have a significant effect on the Township's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board of Trustees and management of Bay Township and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Mason & Kammermann, P.C.
Mason & Kammermann, P.C.
Certified Public Accountants